

# STATE OF MICHIGAN



## Strengthening Internal Controls across the Enterprise of State Government

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# OFM responsibilities

- Payroll
- Financial statement preparation and accounting services
- Internal control and internal audit services



# Today's Road Map

- Key financial management goals
- Internal control self-assessments (COSO)
- Outsourced statewide internal audit projects
- New audit computer environment
- New services and focus for internal auditors

Michigan's key financial management  
goal: publish a CAFR in 3-4 months

Concurrently, we want to put a high  
value on strong internal controls  
throughout our enterprise.

# Challenge no. 1:

How do you make internal control assessments a little more sexy and exciting?

# A framework for internal controls

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- A common enterprise-wide framework is the Controller's Office responsibility (per State law)
- Comprehensive revision made in 1999 (to initial 1986 issuance) based on:
  - management and internal audit concerns on prior framework
  - research of best practices in other governments and industries

# A framework for internal controls (cont.)

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- The 1999 framework is titled- Evaluation of Internal Controls: A General Framework and System of Reporting (and can be viewed at [www.state.mi/dmb/ofm](http://www.state.mi/dmb/ofm))
- Based on the concepts set forth in the widely accepted COSO model
- Integrates the COBIT model related to internal controls in IT organizations

Key FY 2001 objective:

Drive internal control design,  
monitoring, and evaluation into the  
program areas!



# New internal control features

- Train all finance staff on COSO model
- Train all program managers
  - the human services manager/corrections mgr.
- Compare to quality management initiatives and performance measurement efforts
- Emphasize soft controls - surveys
- Job descriptions/performance pay

## Challenge no. 2

Obtain higher value statewide internal audits of key processes.

# New statewide internal audits

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- Outsourcing with an international firm since 1997
- Enterprise-wide internal control processes reviewed:
  - cash disbursements associated with non-payroll expenditures
  - cash receipting and revenue-related activities
  - contracting and purchasing activities
  - administration of security over centralized financial management system
- Internal audits also partner with firm

# Contracted audit features

- Jefferson Wells firm - national offices
- Multi-year contract; \$350,000 per year
- Other agencies using firm
- Excellent training firm
- Ultimately, would like to co-audit, sharing their staff and ours

## Challenge no. 3:

Give our internal auditors better tools  
for auditing and increase their  
understanding and use of technology.

# IT environment for internal auditors

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- Michigan's IT environment:
  - a centralized financial management system
  - 100 systems interfacing with the FMS
  - 1,000 other systems in program areas
- Controllers Office Challenge- Create an environment where internal auditors can better use today's computerized audit tools

# Michigan's Computer Audit Solution

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- A common enterprise-wide environment capable of analyzing data from any of these systems using widely accepted audit software (ACL)
- Easily accessible to the entire decentralized network of internal auditors (secured intranet site)
- Technical aspects of system managed by staff centrally located in controller's office

# Challenge no. 4

Providing new value-added services  
and assistance to internal auditors



# Controller's Office services to IA

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- Routine participation by controller's office staff in the monthly meetings of the enterprise-wide association of internal auditors
- Standard internal audit programs and management evaluation available via the controller's www site
- Establishment of an electronic User Forum (an intranet site) to easily communicate comments and questions related to internal controls

# Facilitate the Sharing of Best Practices

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- Identify and communicate what's other organizations (other State's and major corporations) are doing
  - research and surveys
  - participation on a Best Practices Council with General Auditors of major Michigan-based corporations
- Appropriately leverage the innovations made by one department across the enterprise

# Training, training, and more training....

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- Coordinated by the controller's office for various segments of enterprise-wide staff
- Use of national firms and experts to develop and deliver training

# FY 2001 internal audit study

- Never done a comprehensive review of IA
- Hiring outside firm to assist
- Interview all internal auditors and department directors
- Focus on risk assessment, audit planning, and objectives accomplished
- Goal: resources, training and best practices

# Conclusion

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- Financed primarily by the re-deployment of existing controller's office staff (with limited new funding for services from outside contractors and information technology enhancements)
- Has not always been your "dream job"-but very visible progress (since our 1997 implementation) has been rewarding

# Questions?????

[Www. State.MI.us/dmb/ofm](http://www.State.MI.us/dmb/ofm)

